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# THE EXCHANGE OF “VALUE ADDED” IN NORTH AMERICA: COMMERCE AND CULTURE

by WILLIAM GLADE

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INTERNATIONAL TRADE, INVESTMENT, AND migration are, conventionally, the major cross-border exchanges and principal measures of regional integration. When the markets that organize them work well, they promote the well-being of all participants, though not in equal measure. Additionally, these three transactional categories, which focus on what economists call “private goods,” are amenable to analysis by sophisticated techniques nested in well-developed theories. Yet, despite their analytical utility for handling most questions, the three classifications fail to capture, at least in the North American case, all relevant cross-border exchange transactions.

A few years ago, former President Vicente Fox, mindful of European developments, called for moving beyond the expected completion of NAFTA to a North American Community (NAC) with stronger social, administrative, and economic linkages. From a purely economic perspective, the NAFTA commitments are now almost achieved, and the NAC looms as a possible next step. If, however, we use a multidisciplinary analytical lens that comprehends all exchange transactions, not just those in the balance of payments and migration figures, it would appear that, in North America, regional community building has, in fact, been going on for more than 150 years. Hence, in the long view, the purely economic arrangements are the ones that need to be updated to bring them into correspondence with what social and cultural exchanges have been producing for a very long time.

In the most decentralized way imaginable, people have been “voting” de facto for community long before the issue ever reached the level of presidential imagination and, thus, the agenda of policy discussion. Though the U.S. government was obliged by circumstances (9/11) to turn a deaf ear to the Fox proposal, the process of forming a North American cultural commonwealth continues apace, laying an ever firmer basis for the postulated North American Community. In time, no doubt, the architects of policy will begin to catch up with this people-centered process of social and cultural formation, though the official conceit will surely be that the goal was of their inspiration and creation.

## Contextualizing the Package of Trade, Investment, and Migration Flows

In retrospect, the seeds of a regional cultural community were planted with the secession of Texas from Mexico and sprouted to a new level when the Mexico-U.S. war transferred a huge swathe of Mexican territory, with all the people dwelling thereon, into an expansionist U.S. For most people, borders mattered little in those days and the central government was a distant abstraction, especially for the new Spanish-speaking residents of the U.S. As their numbers grew, customary family ties, now cross-border in nature, were maintained and enabled later new arrivals to be readily absorbed into the life of the Southwest. For decades, people moved back and forth across the border as inclination

and resources permitted. In time, even the distinction between permanent, temporary, and repeat residence “abroad” began to blur for Mexicans who were born below and along the frontier region. The distinction between “home” and “el Norte” was no less vague. As in still later decades, the transborder social and cultural networks that accumulated over time facilitated the northward movement of others from Mexico when railway construction, mining, petroleum drilling and extraction, and ranching got underway in the latter half of the nineteenth century and new urban growth in the American southwest produced a need for workers in many fields.

This process of northward drift intensified early in the twentieth century. Labor-intensive commercial agriculture spread in California and the lower Rio Grande Valley, thanks to rail connections with growing markets, and labor demand was fueled further as southwestern population centers multiplied. With World War I, migrants fanned out, reaching into the mid-west and north-central states, taking jobs in both factories and fields. Like immigrants from more distant lands, the Mexicans began to assimilate, but with their cultural homeland right next door supplying a continuing flow of people northward, cultural replenishment was an inevitable and continuing fact of life. The relationship was fed further by a substantial step-up in migration that sprang from the need of the WWII economy for civilian workers from Mexico.

“Citizenship” was defined more in cultural than legal terms. Voting and government tended to be of little consequence for the Hispanic population on either side of the frontier. The demographic and cultural basis was developed for an ever-broadening range of cross-border exchange transactions between the neighboring countries, only a small portion of which would be registered in balance-of-payments exercises and census taking. In due course, a Hispanic support system of merchants, service providers, and similar businesses developed, just as they did for other immigrant enclaves. As this happened, the inertial element in cultural conservation increased. Maintaining key portions of the “old” way of life became increasingly feasible as a kind of cultural anchoring.

The process of resettling el Norte accelerated as families fled the violence of the Mexican Revolution in the 'teens and 'twenties to take refuge in a peaceful and booming U.S. economy. While the bulk of those who headed north came from humble social origins and entered appropriate segments of the urban and rural employment markets, there also came a growing number of those endowed with greater assets of human and social (not to mention financial) capital, some permanently, some temporarily. Business and professional travelers and scholars, to say nothing of those on shopping expeditions, have long been part of this massive demographic exchange, providing ongoing links between the production and educational systems of Mexico and the U.S. Even tourism, both ways, served as an important vehicle of communication and cultural transfer.

Of key importance as developers of knowledge capital and cultural assets and as conduits of intercountry communication have been such interpreters and makers of culture as artists, writers, photographers, filmmakers, and musicians. All the major Mexican artists, for instance, have worked in the U.S. Since mid-century, large numbers of Mexican academics also have lectured and taught at universities all around the U.S.

The importance of the Hispanic cultural market is evidenced by a growing presence of Mexican popular culture north of the Rio Grande that goes back many years. As precursors of today's Univision, *Tel-emundo*, *Azteca Americana*, and *Hispanic Television Network*, the early Mexican-made silent films began to be screened in the U.S. in the 1920s, followed in the 1930s by sound-pictures. By 1941, there were, according to Agra'sánchez's fine study, approximately 145 theaters in the U.S. that included Spanish-language films, chiefly of Mexican origin, in their programming, the bulk of them in California, Texas, Arizona, and New Mexico, with smaller numbers in twenty-three other states.

Meanwhile, before the Civil War, Americans began to read about Mexico, and from after the Civil War and the French intervention, they formed a growing counter migration to that country—tempted, in part,

by the 1844 William H. Prescott's best-seller *Conquest of Mexico*, the popular travel accounts penned by writer/businessman John Stephens in the same general period, and the more or less contemporary writings of the engineer E. G. Squier. All three men whet the appetite of educated Americans for information about what must have seemed an American Egypt, given the unfolding discoveries of striking antiquities, dramatic landscapes, and an exotic culture. If this provided the roots of a kind of American “Orientalism,” as Edward Said might have put it, it nevertheless helped to attract legions of Americans to Mexico when the Porfirian era ushered in several

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decades of economic modernization and expansion. Thousands of gringo railway and mining engineers, ranchers and other landowners, financiers and merchants, petroleum workers and technicians poured into the country to participate in the long expansion. Like the Mexicans migrating northward, they and the business travelers and tourists heading south, became channels for conveying information and knowledge, as well as skills.

American musicians, artists, writers, and political pilgrims were steadily attracted to what was going on in Mexico. Particularly useful, in stimulating more general interest in the country were such popular writers as Richard Halliburton and the archaeologist Ann Axtel Morris. Leading figures like Nelson Rockefeller, who became enamored with Mexican culture thanks to coaching by René d'Harnoncourt, later director of MoMA, did much to foster a wider interest in that country. After WWII, thousands of American students, many financed by the GI Bill, headed south to study in Mexico. Senior scholars joined the trek, particularly as political changes drew in historians, political

scientists, anthropologists, economists, and others, alongside those poking around in the ruins of pre-Columbian civilizations.

There is ample evidence that the cross-border family networks and other forms of social capital that came out of all this border crossing have been vital parts of the system for sharing information and knowledge across borders, value-adding transfers of inestimable importance even though they are invisible in the usual ways of reckoning the value of exchanges. Thus it was that a unique demographic and cultural relationship developed between populations on either side of the southern U.S. border.

### Identifying Transactional Flows and Exchanges

Thanks to the social foundation that grew from these circumstances, people routinely slipped back and forth across borders largely unnoted. Goods, not always declared to an official overseer, have just as routinely flowed both ways as well, and services have been purchased as needed on either side of the frontier, with indifference to nationality. As people tended to their ordinary family affairs and visited friends in hometowns north and south, movements of capital that took place as intrafamily transactions also eluded detection. Myriad service transactions have likely eluded reckoning in the balance of payments, in which the trade in goods has historically been much more accurately estimated. Conditions along the Mexico-U.S. border have exaggerated the accounting difficulty.

Allowing for the measurement problems associated with these conditions, it is evident that the three core flows of products, capital, and labor do not by any means catch all cross-border transactional flows that have contributed value to the well being of individuals, households, firms, and even, in lesser measure, non-profit/non-governmental organizations—or, for that matter, the largely sidelined governments. That many of these ancillary transactions historically have taken place as externalities of the core processes of exchange may complicate the accounting task, but it does not diminish the significance of these other, partly non-market, transactional flows.

Hence, an indeterminate but probably huge volume of exchanges (and unilateral transfers) has occurred on an unreckoned basis in the

penumbra of balance-of-payments accounting. With movements of people, for instance, have come spreading social networks now identified as social capital. So, too, with human capital. Equally relevant has been the cross-border transmission of cultural preferences, tastes, and customs. Santa Claus and trick-or-treating witches and goblins have headed south, while piñatas and quinceañeras have migrated northward. And while cultural transplants to Mexico have included hamburgers and hot dogs, gringo aficionados of “costumbres mexicanas” have been well nourished by an ethnic distribution system that ensures that tamales and tortillas are never out of reach—along with a sorcerer’s apprentice supply of tequilas.

High culture, too, has spread. In New York City, the Philharmonic Orchestra of the Americas, led by the young Mexican conductor Alondra de la Parra, has featured Mexican and other Latin American music since its opening Town Hall performance in November 2004. And Daniel Catán’s operas have been performed in both Houston and San Diego—not to mention the operatic tenors Rolando Villazón and Ramón Vargas.

Given the growing interpenetration of the neighboring societies, an increasing number of binational organizations have grown up to facilitate, stimulate, channel, and shape cross-border interactions in a growing number of fields. Business life, for instance, has benefited from the American Chamber of Commerce in Mexico, while for a critical period the Rodman Rockefeller–instigated Mexico-U.S. Business Committee had an important hand in fashioning a much closer bilateral relationship. In the academic, nonprofit, and governmental area, the associational fabric is even richer, with multiple, one could even say a welter of, organizations facilitating cross-border communication.

### Assessing Value Added

The value of undocumented cross-border transactions of culture, people, goods, and services, and, estimated separately, of the institutions/organizations that structure and facilitate them, is not readily available in the conventional migration and balance-of-payments statistics. As undocumented migration is itself a matter for estimates with a considerable margin of error, and the value of all the transactions that accompany migration currents is even more problematic in measure-

ment terms, this makes the total interaction all the more a matter for conjecture. Especially with the movement of people, whether legal or illegal, came movements of mail through the postal service, of books, reports, working papers, and periodicals, not to mention a steady flow of person-to-person oral communication. Moreover, the whole exchange process has been magnified enormously by additional trans-border communication: e.g., electronically transmitted information (the Internet and long-distance telecommunication) and trade in such cultural artifacts as films and radio and television broadcasts. Similar transfers of value added, moreover, take place in innumerable professional and scientific meetings, business conferences, symposia, conventions, fairs, and so on. Even the movement of goods transmitted additional knowledge capital and technological capacity, including what is embodied in design, engineering, and product specifications. It goes without saying that the negotiation of licensing agreements and suchlike has allowed production itself—or, more exactly, production capabilities—to move across national boundaries in integrated systems. This single most important factor of production, knowledge capital, has been transferred from one economy to another in a volume only hinted at in the available statistics.

That intellectual property composes an ever-growing share of value added in the modern economy, the transfer of intellectual property and knowledge capital, whether in duly constituted transactions or in pirated forms, has assumed an especially critical role in the larger scheme of production relations, right alongside the ample cultural resources that have been widely disseminated throughout North America. Thanks to these developments and the information distribution systems they have created, the information base on which all decisions are taken and choices made has come to cover virtually the whole of North America, and this, as economic theory instructs us, also produces allocational gains from the more efficient decisions made on the basis of drastically enriched options.

What seems unmistakable is that the movement of students, professors, researchers, business specialists, many other professionals, and ordinary people across national frontiers not only has fortified the information base but also has increased the capacity to generate

such capital and the complementary resources that figure in production. In the long run, this flow of knowledge is the largest and most important flow of all in influencing the long-term capacity to raise aggregate output, but reckoning its magnitude and estimating the value it adds fall well short of what is needed for precise reckoning. Complicating the picture is the fact that much of this transfer of knowledge has taken place as a spillover or adjunct effect (i.e., as an “externality”) of other exchange processes. The ultimate value of these exchanges is realized only over a very long period of time and in diffused form. Hence, assessing the ultimate size and distribution of the beneficial impacts defies exact calculation, though we know intuitively that it is huge.

This said, two other considerations also serve to make benefit estimation an especially formidable task. Given the multiple sources of added value in such large, complex, and dynamically interacting economies as those that compose North America, the data presented in balance-of-trade and investment flows are very distant approximations of the value added that is being transferred internationally within the region. Some of the transfers serve to enhance welfare or well-being directly by adding to the value of current consumption, but other cross-border transactions contribute, on a probably more sustained basis, by increasing productivity and the capacity to produce. Both consumption and investment, therefore, benefit.

Think, for example, of a museum or library, both of which cultural producers have been strengthened by cross-border exchanges. Consumers (visitors, readers) of these repositories of knowledge benefit directly by enriched offerings of exhibitions and books, but production in the long run thrives as well as users become more productive in the future in their respective fields of labor. The cultural infrastructure of a nation is, in this sense, no different from other forms of infrastructure such as electricity generating and transmission systems, highways, railways, or hospitals.

A final consideration complicates further the cost-benefit analysis of regional integration in North America. While most of the exchanges counted in the usual reckonings consist of private goods (i.e., goods acquired by individuals and companies for their particular use and benefit), many of the exchanges we have

been describing serve to increase the supply of public goods: the consumption of which by one in no way diminishes the consumption by others and from which no one can, practically speaking, be excluded: e.g., most knowledge capital and the general supply of human capital, much organizational and social capital, and so on. All tend to enrich both the range of long-term consumption options and the capacity to innovate and increase output. The mutual understanding and knowledge sought by, for example, the Fulbright program and most other cultural exchanges confer immense long-term benefits on the societies in which they take place. And this is true in general whether the channels of exchange are situated in the private commercial sector, the public sector, or the not-for-profit independent sector.

Not of least consequence are the global public goods represented by (a) more harmonious international relations or regional peace and (b) reliable transactional frameworks of international law. If we are nowadays increasingly aware of the importance of such global or international public goods as a more orderly system of exchange rates, a well-functioning trading system, and a secure contract regime and property rights, we are also more appreciative of the averted extinction of assorted animal species and flora, thanks to international conventions and agreements, and to the preservation and more effective utilization of cultural heritage goods, natural preserves, common water resources, and so on. Greater regional security is an indispensable component of national security, and cross-border collaboration in law enforcement, if ever it can be attained, is integral to a comprehensive national scheme for reducing criminality. The benefits of these public goods may be incalculable, but they are also undeniable. We need not dwell, of course, on the effects of the public “bads” that ensue when regional cooperation breaks down—or fails to materialize.

We are, Mexico, Canada, and the United States, in this together willy-nilly and destined by geography as well as history to form a regional community. It may seem rather too grand, if not grandiose, to credit President Fox with prophetic powers, but the vision he articulated so sparsely is de facto, as Washington would probably put it, a road map of the territory we are destined to traverse. We have been traveling that route already for many decades. In the grand reckoning of public policy,

therefore, there is probably something to be said for turning on the headlights of foresight and forethought to steer the process as smoothly as possible rather than blindly hitting the many bumps and potholes that dot the way—or even running off the road.

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## DR. GLADE RETIRES

**Dr. William Glade**, who has taught in the Economics Department at the University of Texas since 1971, retired on May 31, 2007, after more than thirty-six years at UT. He was honored with a luncheon hosted by the Economics Department on May 10 and with a farewell dinner at UT's Texas Club on May 26.

A Ph.D. of UT Austin, Dr. Glade was Director of the Institute of Latin American Studies from 1971-86. He was also President of the Latin American Studies Association from 1979-80. Prior to coming to UT, Dr. Glade taught at the University of Maryland and the University of Wisconsin. His research focused on comparative economics, international business, and money and banking. Dr. Glade held numerous consulting positions for government agencies including the Woodrow Wilson International Center for Scholars, the United States Information Agency, and the Ford Foundation.

A widely respected economist, Dr. Glade will be greatly missed around campus by his colleagues and students at the university, but they wish him a long and satisfying retirement.